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SUBJECT: LULA MAY END UP WINNER IN PMDB PARTY CRISIS

REF: BRASILIA 3031

1. (SBU) SUMMARY. The large PMDB party decided at a December 12 convention to defect from the governing coalition of Brazilian President Lula da Silva. The decision exacerbated the rift between the party's pro- and anti-government wings, but as the dust settles it appears that Lula could benefit from the crisis. Lula plans to keep the two PMDB members in his cabinet and will continue to collaborate with the pro-government PMDB members of Congress. This posture has helped to solidify the party's pro-government wing, and Lula can now reasonably count on most of the PMDB votes in both houses. The crisis may not play out until February, but with the administration and savvy PMDB Senator Jose Sarney working against the withdrawal from the coalition (and the anti-government wing making tactical blunders), Lula may well turn the crisis in his favor. END SUMMARY.

2. (SBU) The Party of the Brazilian Democratic Movement (PMDB) is being derided as the "Party of the Brazilian Disorganized Mix-ups". The anti-government wing forced a vote at a December 12 party convention to pull out of Lula's coalition (reftel). By this, party leaders hoped to establish themselves as "independent" of Lula's Workers' Party (PT) so that they can run against Lula and the PT's other candidates in the 2006 elections. However, those party leaders are now on the defensive as the pro-government wing has united in a counter-attack supported by the administration.

PMDB CAUCUS IN CONGRESS SWINGS TOWARD LULA

3. (SBU) In Congress, leading PMDB Senators Jose Sarney and Renan Calheiros have finally buried the hatchet on their dispute over who will be the next Senate President (it will likely be Calheiros). Their reconciliation brought together the PMDB caucus in the Senate so that 20 of the party's 23 Senators are now counted as pro-government. Sarney's support, in particular, is key. His political instincts are unrivalled, and he is a devoted government ally who can pull innumerable strings on Lula's behalf (but on the few occasions that he has been irritated with the administration, he has caused it to lose key floor votes). In the lower house, the picture is similar. The party's pro-government faction in the Chamber showed its teeth December 15 in collecting 47 votes (of the party's 78 Deputies) to retain pro-government Deputy Jose Borba as party whip. Thus the pro-Lula faction owns a solid majority of the party caucus in both houses.

TEMER'S FAILED MOVE TO EXPEL DISSIDENTS

4. (SBU) As a key coalition member, the PMDB nominated two cabinet ministers and several other senior administration officials. In the wake of the party's withdrawal from the coalition, PMDB president Michel Temer, who leads the party's anti-government bloc, ordered these officials to quit their posts. They refused, and Temer moved to expel them from the party. Those threatened with expulsion are: Communications Minister Eunicio Oliveira, Social Security Minister Amir Lando, Director of the Social Security Agency (INSS) Carlos Bezerra, Director of Petrobras's transportation unit (Transpetro) Sergio Machado, and Director of the Postal System (Correios) Joao Henrique de Almeida. But the battle is also being waged in the courts, and Temer's move was short-circuited by a judge's decision that declared the entire PMDB convention void. Thus, the party members who hold posts in Lula's administration will defy Temer and keep their jobs. As a tactical matter, Temer's move to expel the five was a failed show of strength that backfired and may cost him dearly as events unfold.

LULA CAPITALIZING ON THE SITUATION

5. (SBU) The day after the December 12 party convention, Lula met with the PMDB's pro-government leaders and reportedly offered them behind-the-scenes support to replace Temer with Sarney as party president in mid-2005. In the meantime, Lula will seek to exploit the party's divisions by working exclusively with the pro-government faction, offering support and pork spending to its congressional bloc, and keeping the two PMDB cabinet ministers in place. Lula pointedly said this week that he plans no cabinet shuffle until January at the earliest.

COMMENT

16. (SBU) Senator Jose Sarney and the pro-government wing of the PMDB are counter-attacking, and Sarney is a formidable tactician who has already managed to forge a weighty support bloc in Congress. Party President Michel Temer and the anti-government wing have the support of the large party delegations from Sao Paulo, Rio de Janeiro, and a handful of other key states that have never been comfortable in Lula's camp. Both sides will continue to maneuver, but in the short-term, Lula will treat the pro-government wing as a coalition member (and will retain his PMDB cabinet ministers). Congress will go out of session by December 30, so the crisis may not play out until February or March. Senator Jorge Bornhausen (president of the opposition PFL party) notes with dismay that the crisis has had the effect of clearly defining the PMDB's internal rift and making its pro-government wing more committed to Lula. Thus, he predicts, the work of the opposition may become more difficult in the coming year because it will be harder to pick off disaffected PMDB members during votes. On the other hand, Rio Mayor Cesar Maia, also of the PFL, commented in the press that "the PMDB is a rare case of a party that gets stronger with disunity. As the sides become defined, the government and opposition wings get stronger through bargaining. When it is united, the party is weaker."
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